

THE FIAR BULLETIN:

WHAT YOU NEED TO KNOW NOW IN DEFENSE AUDIT READINESS

January 6, 2016

✧ Important Policy Changes that Facilitate Audit Readiness

Enterprise-wide dependencies can impede a Component's efforts to achieve audit readiness. Long-standing accounting policies, regulations, and standards may not meet current needs, such as the valuation and reporting of General Property, Plant, and Equipment. In recent months, the Department has issued six policy memoranda that change or clarify policy essential to producing auditable financial statements and addressing DoD OIG identified material weaknesses. The memoranda are available on the [DoD Financial Management Regulation](#) website, and direct links are listed below:

- [Inventory and Related Property Accounting Policy Requirements](#), November 13, 2015
Addresses progress billing for manufactured items; acquisition of initial spares by the Working Capital Fund; and the classification of minor equipment not defined as Operating Materials and Supplies (OM&S).
- [Accounting Policy Update for Financial Statement Reporting for Real Property Assets](#), September 30, 2015
Establishes that real property will be reported on the balance sheet of a Component when the Component is the primary economic beneficiary (occupancy of 90 percent or more) and responsible for sustaining the property. If both criteria are not met, the installation host reports the asset.
- [Strategy for Environmental and Disposal Liabilities Audit Readiness](#), September 30, 2015
Establishes a Department-wide strategy for achieving audit readiness for Environmental and Disposal Liabilities. Appendices include frequently asked questions, definitions, a decision tree, and relevant provisions that will be incorporated into the next update of the DoD Financial Management Regulation, Volume 4, Chapter 13, "Environmental Liabilities."
- [Strategy for Internal Use Software Audit Readiness](#), September 30, 2015
Establishes policy for capitalizing internal use software costs for items placed in service on or after October 1, 2016, and clarifies capitalization criteria for evaluating internal use software placed in service prior to that date.
- [Accounting Policy Update for the Expense Recognition of Operating Materials and Supplies](#), September 4, 2015
Establishes guidelines for Components to assess whether the purchases method of accounting for OM&S can be used and clarifies when to expense OM&S when using the consumption method.
- [Alternative Valuation Methodologies for Establishing Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials](#), August 28, 2015
Establishes guidance for using alternative valuation methods in accordance with new standards for establishing opening balances for Inventory, OM&S, and Stockpile Materials. All components must establish their opening balances for Inventory, OM&S, and Stockpile Materials not later than September 30, 2017.

✧ November 2015 FIAR Report Issued

FY 2015 was a pivotal year for DoD and audit readiness, according to the [November 2015 FIAR Plan Status Report](#). The report, which was released Monday, November 16, 2015, states that in FY 2015, nearly 90 percent of the total DoD General Fund appropriations were under financial audit by an independent public accounting (IPA) firm. Each Military Department began an IPA audit of its General Fund Schedule of Budgetary Activity (SBA) FY 2015 appropriations, and most of the larger Defense organizations went under SBA examination or completed mock audits.

Audits will be expanded in FY 2016 to include General Fund appropriations full financial statement audits of DLA and DISA. The U.S. Marine Corps is planning for a full Statement of Budgetary Resources audit. Other resources will remain dedicated to audit readiness activities, such as ongoing testing of internal controls, migrating to an audit ready systems environment, and remediating remaining deficiencies identified in the FY 2015 audits, examinations, and mock audits. The Department will continue to expand the scope of audits until full audit readiness is achieved.

✧ National Defense Authorization Act for FY 2016 Enacted

The National Defense Authorization Act for FY 2016 was enacted November 25, 2015 ([P.L. No. 114-92](#)). The law addresses many aspects of audit, including improving the auditing of contracts and improving accounting standards to value certain Property, Plant, and equipment items. The law also requires DoD to rank the Military Services and Defense Agencies in order of how advanced they are in achieving auditable financial statements.



Published by the Financial Improvement and Audit Readiness Directorate, Office of the DCFO, OUSD(C), U.S. Department of Defense. To comment or have your name added to or removed from the mailing list, please contact us at osd.pentagon.ousd-c.mbx.odcfo@mail.mil.